

We Help Put America Through School

SFA Spring Conference

March 5-8, 2002

Title IV Program Compliance Issues

"It's All About Communication"

Career Colleges and Technical Institutions




Pre-Conference Workshop

David Bartnicki

404-562-6290;david.bartnicki@ed.gov



CASE MANAGEMENT: OBJECTIVES

-  To provide best in business service to schools
-  To promote access to high quality postsecondary education and lifelong learning
-  To maintain strong oversight and comprehensive partner support

CASE MANAGEMENT CHALLENGE

1992 Amendments

Inefficient Processes

Inadequate Data and Document Control

Poor “Customer” Service

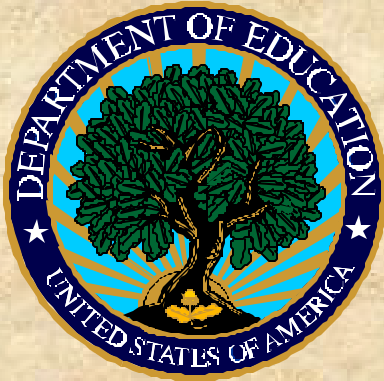
Ineffective Targeting of Institutions for Monitoring

**Financial
Statement
Analysis**

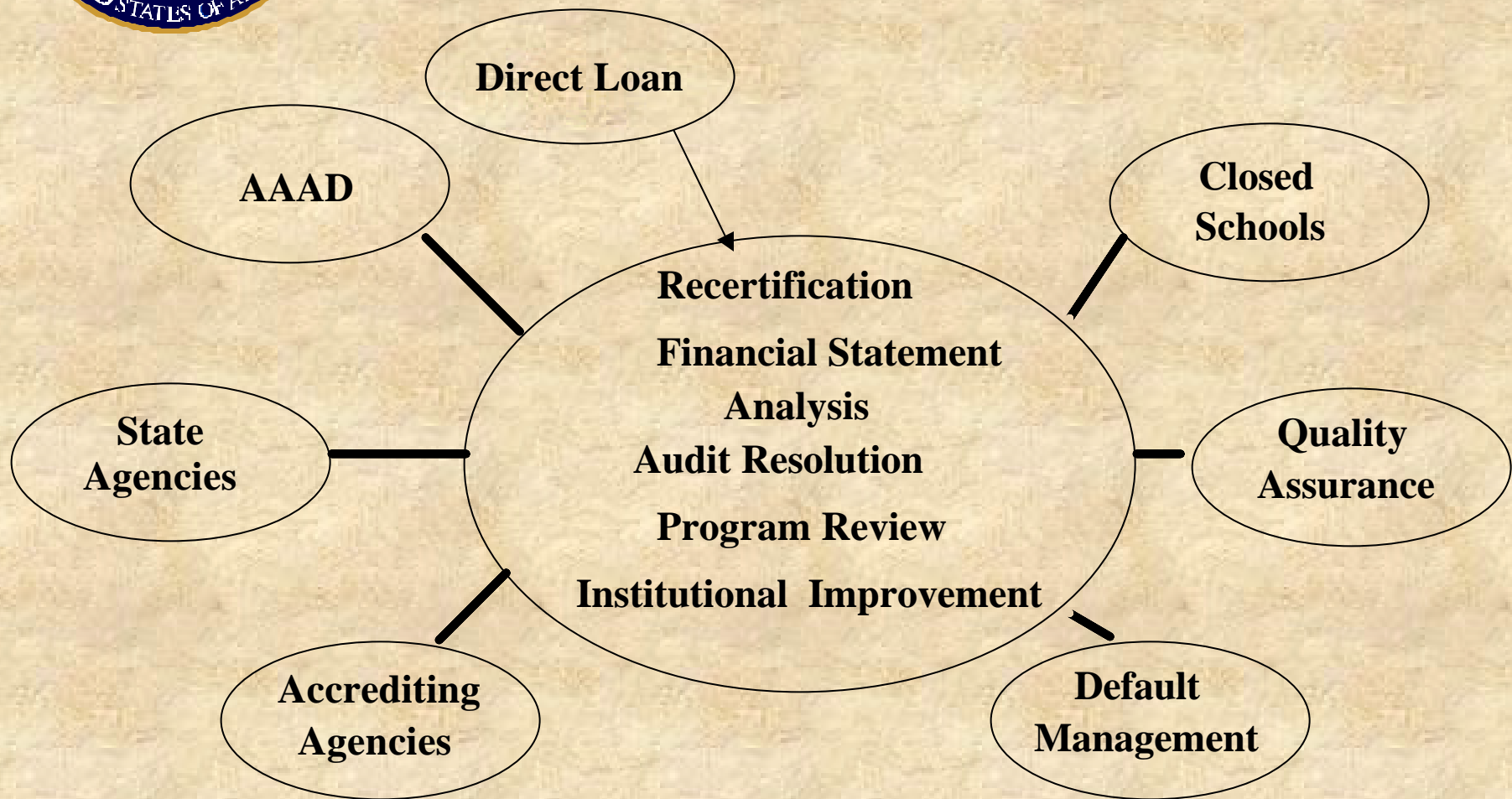
**Audit
Resolution**

**Program
Review**

Recertification



Case Management Structure





CASE MANAGEMENT PROCESS

INPUTS

Application for
Recertification

Deficient Audits

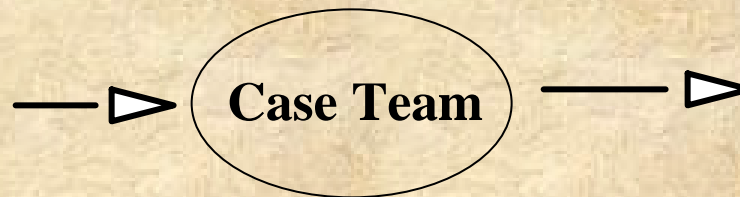
Evaluation of Risk

Accrediting Agencies

State Agencies

Record of Compliance

Student and Other
Complaints

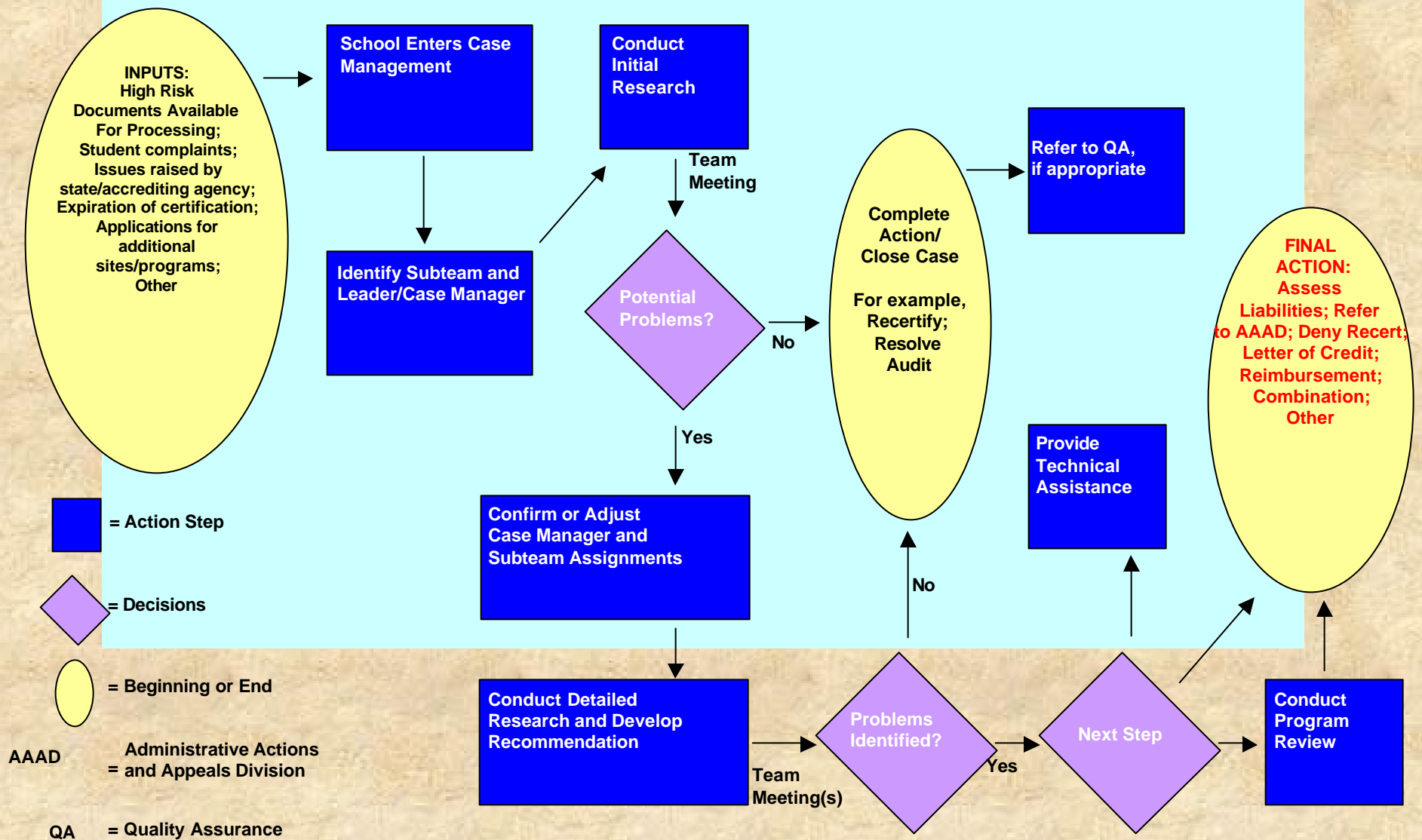


OUTPUT

Decision on
actions to be
taken on
schools

Institutional Participation and Oversight

Case Management Process Model





Case Management Process Possible Decisions

- ✦ Recertify
- ✦ Develop Strategy for Technical Assistance
- ✦ Establish Liabilities
- ✦ Transfer to Reimbursement
- ✦ Require Letter of Credit
- ✦ Conduct Program Review
- ✦ Recommend for Participation in Quality Assurance Program
- ✦ No action taken



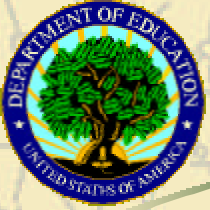
Compliance Topics

- ✦ Eligibility Issues
- ✦ Clock/Credit Hour Conversion
- ✦ Pell/Loan Proration
- ✦ Verification/Conflicting Documentation/PJ
- ✦ Ability-to-Benefit (ATB tests)
- ✦ Satisfactory Academic Progress Policy (SAP)
- ✦ Return to Title IV Policy (R2T4)
- ✦ Cash Management (Fiscal)
- ✦ Campus Security Report
- ✦ Incentive Payments
- ✦ Compliance Audit/Financial Statements
- ✦ 90/10 Rule



Eligibility Notifications/Approvals

- ✶ Changes NOT requiring Dept.'s written approval
 - School name, personnel, address, 3rd party servicer, program criteria, length of program, etc.
- ✶ Notify the Department of the change via the electronic application within 10 calendar days of the change and send -
 - any required supporting documentation - including accrediting agency and state agency approvals
 - President/CEO signature (Section L)



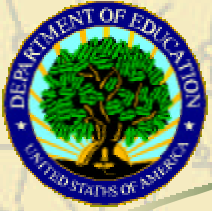
Eligibility Notifications/Approvals

- ✶ Changes REQUIRING Dept.'s written approval
 - accrediting/state authorizing agency, institutional structure, to clock or credit hours, addition of nondegree programs outside of the scope of current approval, ownership, SFA programs, etc.
- ✶ Notify the Department of the change via the electronic application within 10 calendar days of the change and send -
 - any required supporting documentation - including accrediting agency and state agency approvals
 - President/CEO signature (Section L)



Program Eligibility

- ✎ Eligible non-degree programs (certificate/diploma)
 - 15 weeks (instruction); 600 clock hours, 16 semester/trimester hours, or 24 quarter hours (eligible for all Title IV programs)
 - 10 weeks (instruction), 300-599 clock hours, must have 70% completion rate and 70% placement rate in related job fields, cannot be more than 50% of state required minimum hours, been in existence for one year (FFEL and Direct loans only)
 - 10 weeks (instruction), 8 semester, 12 quarter or 300 clock hours, a graduate/professional program or admit only students with an associate degree or higher
 - Must have state and accrediting agency approval (do not need Dept. approval if new program is at least 10 weeks long, 8 semester, 12 quarter or 600 clock hours and is in the same or related occupation as an existing Title IV eligible program at the school)



Additional Locations

NPRM dated August 10, 2000
Final November 1, 2000

EFFECTIVE 7/1/2001

- ✶ ALL institutions must report to the Department if they wish to add an additional location offering 50% or more of an eligible program
 - reporting consists of submitting electronic application and required supporting documentation
- ✶ *However, only schools that meet certain criteria have to wait for our approval before disbursing IV aid to students at those locations* (provisionally certified, reimbursement/cash monitoring, acquired assets of another school that provided education at that location during the preceding year, and the other school participated in IV, would be subject to loss of eligibility due to default rates if location is added, or Secretary previously notified school that it must apply for approval of additional locations)



Eligibility References

- ✦ www.eligcert.ed.gov (electronic application)
- ✦ 2001-2002 SFA Handbook, Vol. 2, pages 2, 279-289
- ✦ Dear Colleague Letter - GEN-97-6
- ✦ 34 CFR 600.10
- ✦ 34 CFR 600.20-21
- ✦ 34 CFR 668.8 (programs)



Clock/Credit Hour Conversion

(01-02 SFA Hdbk, Vol.2, pages 20-21, 668.8(k)(I))

- ✎ 1 semester or trimester credit hour must include at least 30 hours of instruction
- ✎ 1 quarter credit hour must include at least 20 hours of instruction

Example:

$$\text{- } \frac{900 \text{ clock hours}}{30} = 30 \text{ semester hours}$$

$$\text{- } \frac{1500 \text{ clock hours}}{20} = 75 \text{ quarter hours}$$

- ✎ Applies to undergraduate vocational education programs (even if always offered in credit hours, need to determine the number of clock hours in program)



Clock/Credit Hour Conversion

Exceptions:

- (1) program is at least 2 academic years in length and provides an associate, bachelor's or professional degree (must be defined by state/accrediting body as a degree program) OR
- (2) each course within the program is acceptable for full credit towards that institution's associate, bachelor's or professional degree (Federal Register 7/23/1993, Vol. 58, No. 140, page 39619) OR**
- (3) a public or private nonprofit hospital-based school of nursing that awards a diploma at the completion of the school's program of education



Clock/Credit Hour Conversion

(1) Program eligibility

- program providing at least 16 semester or trimester credit hours or 24 quarter credit hours must include at least 480 clock hours of instruction (at least 15 weeks in length)

(2) Number of credit hours for Title IV purposes

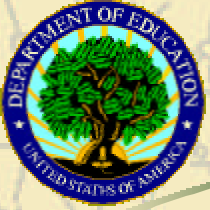
- determine number of credit hours you can pay a student for (conversion credit hours may be less than original number - may decrease Title IV funding)

- ⚠ The resulting number of credit hours may not be rounded upward.



Clock/Credit Hour Conversion

- ✱ A clock hour is based on an actual hour of attendance (60-minute period), though each hour may include a 10-minute break.
- ✱ A school may not schedule several hours of instruction without breaks, and then count clock hours in 50-minute increments
 - cannot say 7 hours of instruction = 8.4 clock hours (420 minutes divided by 50 minutes = 8.4)
 - 7 real-time attendance hours = 7 clock hours
- ✱ **(01-02 SFA Hdbk, Vol.2, pages 20-21, 668.8(k)(I))**



Pell and FFEL/DL Prorations

(01/02 SFA HDBK, Vol. 3, page 43; Vol. 8, page 20;
34 CFR 682.204, 685.203, 690.63)

☛ Pell (Formula 4 – clock hour & nonterm credit hour)

- Weeks = when majority of your full-time students complete hours in the program or academic year more quickly than the weeks defined in the academic year definition
- Hours = when the program/ remaining period is shorter than an academic year

☛ Loans (all schools - no more fixed prorations as of 10/1/98)

1. Final period of study (end of which a student completes the program) that is shorter than an academic year:

$$\text{maximum loan amount} \times \frac{\# \text{ of credit or clock hours enrolled}}{\# \text{ of hours in academic year}}$$

2. Program of study that is less than a full academic year in length, the lesser of:
the above calculation

OR

$$\text{maximum loan amount} \times \frac{\# \text{ of weeks in program}}{\# \text{ of weeks in academic year}}$$



Verification/Conflicting Documentation

✶ **Verification** – the process of checking the accuracy of information supplied on the Free Application for Federal Student Aid (FAFSA); used to reduce fraud and abuse; handled by the financial aid office

✶ Verification items

- Household size
- Number enrolled in college
- Adjusted Gross Income (AGI)
- U.S. income tax paid
- Certain untaxed income and benefits (social security benefits, child support, EIC, IRA/Keogh deductions, foreign income exclusion, interest on tax-free bonds)



Verification/Conflicting Documentation

- ✚ Conflicting documentation (668.16(f))
 - adequate system to resolve discrepancies in the information received from different sources with respect to a student's application for IV financial aid.
- ✚ Problems/Issues (incomplete verification)
 - missing documentation (tax return, verification worksheets, etc.)
 - missing signatures (student, parent, preparer)
 - 30% verification not met
 - ISIR not reprocessed



Verification - References

- ✦ 2001-2002 SFA Handbook, Application/Verification Guide, Chapters 3 and 4
- ✦ Verification worksheets (optional – by award year)
- ✦ 34 CFR 668.36 (social security number)
- ✦ 34 CFR 668.51-61 (subpart E)
- ✦ Dear Colleague Letter - GEN-01-03; GEN-02-02
 - Guide to ISIRs



Professional Judgment (PJ)

(HEA, Section 479A; 01/02 SFA HDBK, Application/Verification Guide, pages 66-67)

1. Adjusting data elements used to calculate EFC
2. Adjusting Cost of Attendance
 - ✖ Reasonable decisions on a case-by-case basis
 - ✖ Documentation supporting special circumstances
 - ✖ Examples include: high medical expenses, unemployment, high child care costs, changes in income/assets (income protection allowance already included in EFC calculation for modest living expenses)
 - ✖ Unreasonable judgment includes: reducing income based on vacation expenses; dependency override due to parents not claiming student on tax return



Ability-to-Benefit Tests (ATB)

✓ **Test Administrators**

- Assessment Centers
- Independent (no affiliation with school or personnel)
- certified by test publisher
- publisher scores test

✓ **Approved Tests (scale scores)**

- must be administered in accordance with procedures set by publisher (retest, time limits, etc.)
- official test scores are valid for 12 months from testing

✖ **Documentation**

- type of test, date taken, scores, test administrator info.

✓ **Eligibility**

- cannot have more than 50% of regular enrolled students admitted without a H.S. diploma/GED, unless offer at least a 2-year degree



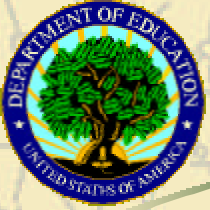
ATB - References

- ✎ 2001-2002 SFA Handbook, Vol. 1, Pages 4-7
- ✎ 34 CFR 668.141-156 (Subpart J)
- ✎ 34 CFR 600.7
- ✎ Federal Register 5/5/1999
 - students with disabilities
- ✎ Federal Register 1/12/2001
 - English as a Second Language (CELSA)
- ✎ Federal Register 12/30/1992
 - Non-native English speaker guidelines



Satisfactory Academic Progress Policy (SAP)

- ✦ develop, publish and monitor SAP policy
- ✦ as strict or stricter than non-IV students
- ✦ applied consistently to all students within categories
- ✦ contain all required components:
 - qualitative measure (GPA)
 - quantitative measure (maximum time frame)
 - appeal procedures
 - reinstatement of eligibility
 - probationary periods (optional)
 - class completion issues (remedial courses, etc.)
- ✦ **01/02 SFA Hdbk., Vol. 1, pages 8-12**
34 CFR 668.16(e); 668.32(f); 668.34



Return to Title IV Policy (R2T4)

- ✦ Effective October 7, 2000
- ✦ New written policy explaining R2T4 (including official withdrawal procedures)
- ✦ Unofficial withdrawal procedures
- ✦ Explain all other refund policies (state, institutional, accrediting, etc.)
- ✦ Ability to identify withdrawn students
- ✦ Calculations performed properly (optional Department worksheets and software)
- ✦ Downside adjustments reported to Dept. (Pell RFMS System)
 - Reconciliation



Return to Title IV Policy (R2T4)

- ✶ Was money returned? (offset, elec. refund, check)
- ✶ Timeframes
- ✶ Late Refunds (Program Reviews/Audits)
 - more than one student & error rate is 5% or more of sample; post Letter of Credit (LOC) equal to 25% of total amount of Title IV refunds made during the most recently completed fiscal year
 - LOC submitted within 30 days from Audit due date or date that the Secretary, State or guaranty agency that conducted a review notifies the school of the finding



(R2T4) - References



www.sfadownload.ed.gov - software/R2T4



www.ifap.ed.gov

– current SFA publications

- 2001-2002 SFA Handbook, Vol. 2, Chapter 6
- June 2001 Blue Book
- Dear Partner Letter - GEN-00-24
- Federal Registers - 8/6/99 nprm & 11/1/99 final
- 34 CFR 668.22
- 34 CFR 668.173
- Return of Title IV worksheets



Federal Perkins Program



Due Diligence

- Entrance/exit counseling
- Borrower contact during grace period
- Billing procedures (late charges)
- Address searches, skip-tracing
- Collection procedures (notification to credit agencies)
- Deferments/cancellations granted properly
- Valid promissory notes on file and secured
- Relationship with third party servicers (school ultimately responsible)



High default rates

- Default Management plan; 3 years over 50% - loss of Perkins elig.

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Campus Security Report

- ✦ Publish and distribute by 10/1 each year
- ✦ Submit to Dept. by deadline in Oct. (surveys.ope.ed.gov/security)
- ✦ Statistics for 3 most recent calendar years (arson, robbery, sex offenses, arrests for drug/alcohol violations, etc.)
- ✦ Various campus policies (timely warning, crime prevention programs, alcohol/drug abuse programs, sexual assault, etc.)
- ✦ Campus security authority
- ✦ Campus log (campus security, police)
- ✦ Local police reports
- ✦ How is Campus defined? (campus bldg., non-campus bldg., public property)



Cash Management = Communication

- ✚ Bank account notification ("federal funds")
- ✚ Interest bearing
 - Required for Perkins; for DL, Pell, FWS and FSEOG only if over \$3 million drawdown
 - Interest over \$250 must be returned to the Department
- ✚ Early/late disbursements
 - 10 days prior to start of class (calendar mid-points, starting new payment period)
 - 30 days for first-time, first-year borrowers
- ✚ SFA Credit balances (14 days)
- ✚ Required school notifications
 - holding credit balances, prior-year charges, crediting FWS funds, loan cancellations, crediting loan funds, etc.)



Cash Management

- ✦ Excess cash (3 day rule; tolerance levels)
- ✦ Matching requirements (campus-based)
 - Perkins (ICC – 1/3 of FCC), FWS (ICC – 25%), FSEOG (ICC – 25%)
- ✦ Reconciliation
 - How often (monthly?)
 - Balance year-end totals
 - Compare Dept. reports-bank statements-school ledgers
- ✦ Clear audit trail
 - Trace individual drawdowns (which programs, students...)
 - Trace funds returned to the Dept.

**2001-2002 SFA Handbook, Vol. 2, chapter 5; Vol. 4;
June 2001 Blue Book; January 2000 Audit Guide;
34 CFR 668.161-167 (subpart K)**



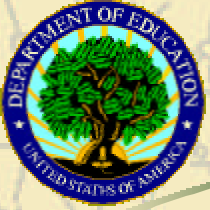
Incentive Payments - Sec. 487(a)(20); 34 CFR 668.14(b)(22); Federal Register 4/29/94 preamble

By entering into this program participation agreement (PPA), an institution agrees that...it will not provide, nor contract with any entity that provides, any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any persons or entities engaged in any student recruiting or admission activities or in making decisions regarding the awarding of student financial assistance...



Exceptions:

- recruitment of foreign students residing in foreign countries who are not IV eligible
- token gifts (provided only once) to students or alumni for referring students; cannot be in the form of money and cannot exceed \$25 in value.



Compliance Audits & Financial Statements

Proprietary Schools

- Both audits must be submitted simultaneously within 6 months of the end of the school's fiscal year (single packet).

Four copies must be sent to:

For regular mail/commercial overnight delivery:

U.S. Department of Education
Case Management & Oversight
Data Management & Analysis Division
Document Receipt & Control Center
830 First Street, NE
Room 7111
Washington, DC 20002-5042



90/10 Rule (formerly 85/15)

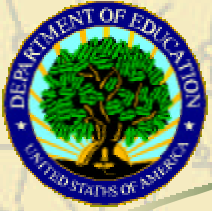
✶ To be eligible for SFA participation, a proprietary institution may derive no more than 90% of its revenues from the SFA Programs

✶ Use formula specified in 34 CFR 600.5:

Title IV funds used for tuition, fees, and other charges

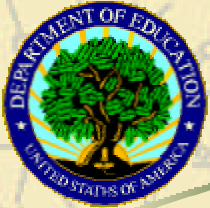
Total revenues from tuition, fees and other charges for students enrolled in **eligible programs**, plus other incurred costs that were necessary for students in **eligible programs**

✶ disclose in a footnote to its audited financial statements the percentage (including figures used) of its revenues derived from Title IV funds



90/10 Rule

- ✦ Calculation is based on the **cash basis of accounting** (all revenue is recognized when received, i.e. when there is an inflow of cash)
- ✦ Institutional loans are only recognized as cash revenue when those loans are repaid
- ✦ Institutional scholarships are not revenues generated by the school (unless they are donated by an unrelated or outside third party)
 - tuition waivers do not count as revenue



90/10 Rule

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- ☀ A school **MUST** assume that any SFA program funds disbursed (or delivered) to or on behalf of a student were used for institutional costs, regardless of whether the institution credits those funds to the student's account or pays them directly to the student, **unless** those costs were otherwise paid by grants from nonfed public agencies or independent private sources, gov't job training contracts, or prepaid State tuition plans
- ☀ A school **CANNOT** limit/reduce an otherwise eligible student's Title IV aid in order to meet the 90/10 rule
 - i.e. **CANNOT** package a student's Title IV aid up to 90% of institutional costs and then require the student to pay the remaining 10% out of pocket
- ☀ Schools that fail to satisfy the 90/10 rule lose their IV eligibility on the last day of that fiscal year and must report to the Dept. within 90 days of the end of the fiscal year. (notify the Dept. at the address used for compliance and financial statement audits)



Audit/Financial Statement- References

- ✶ www.ed.gov/offices/OIG/nonfed
 - January 2000 Audit Guide, supplements
- ✶ www.whitehouse.gov/omb/circulars/a133/a133.html
 - A-133 OMB Circular and supplements
- ✶ www.ifap.ed.gov
 - 2001-2002 SFA Handbook, Vol. 2, pages 9-13, 296-305
 - June 2001 Blue Book
 - 668.15 & 668.171-175; Appendix A of Subpart L (ratio)
 - Dear Colleague Letter: Gen-99-33; Gen-01-02 (long-term debt)
 - CPA Letters - CPA-99-01, CPA-99-02
- ✶ Final Audit Determination Letter (FAD)
- ✶ OIG office (audit issues)
 - Jim Burley (214) 880-3031



Resources/References

✎ www.ifap.ed.gov

- SFA Handbooks, Dear Colleague Letters, Electronic Announcements, 2001 Program Review Guide

✎ <http://qaprogram.air.org/ToolforSchool.html>

- SFA Assessment Modules: Self-Evaluation Tool

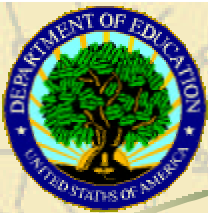
✎ www.ed.gov/offices/OSFAP/sfau

- Department training opportunities, training materials

✎ <http://www.edvideo.walcoff.com>

- View current and archived Department Webcasts

✎ <http://sfa4schools.sfa.ed.gov> (School's portal)



Case Management Teams

Boston Team - (617) 223-4905
(CT, MA, ME, NH, RI, VT)

Philadelphia Team - (215) 656-6442
(DE, DC, MD, PA, VA, WV)

Chicago Team - (312) 886-8767
(IL, MN, OH, WI)

Kansas City Team - (816) 880-4053
(IA, KS, KY, MO, NE, TN)

San Francisco Team - (415) 556-4295
(AZ, CA, HI, NV, and Pacific Islands)

New York Team - (718) 488-3590
(NJ, NY, PR, VI, and foreign schools)

Atlanta Team - (404) 562-6316
(AL, GA, FL, MS, SC, NC)

Dallas Team - (214) 880-3044
(AR, LA, NM, OK, TX)

Denver Team - (303) 844-3677
(CO, MI, MT, ND, SD, UT, WY)

Seattle Team - 206-615-2594
(AK, ID, IN, OR, WA)